

Message Text

PAGE 01 STATE 169558
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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

C O N F I D E N T I A L STATE 169558

LIMDIS; PASS USADB FOR AMBASSADOR ONLY

E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
JULY 5, 1978

1. PREPARATIONS FOR US-ASEAN MINISTERIAL (CONFIDENTIAL)

WE NEED SOME FIRM ASEAN REACTIONS TO OUR PROPOSED AGENDA AND SCHEDULE AND THE VARIOUS QUESTIONS WE HAVE RAISED BEFORE WE CAN GO MUCH FURTHER IN A NUMBER OF AREAS. WE HOPE TO GET AT LEAST AN INITIAL REACTION WHEN EMBASSY MANILA MEETS WITH MRS. MANALO JULY 7. SHE HAS BEEN OUT OF THE COUNTRY SINCE THE ASEAN FOREIGN MINISTERS MEETING. WE PARTICULARLY NEED EARLY CONFIRMATION ON WHETHER THE ASEAN MINISTERS AGREE TO HAVING SOME OF THE EVENTS SCHEDULED FOR THE AFTERNOON AND EVENING OF AUGUST 2. ROMULO HAS INDICATED IT POSES NO PROBLEM FOR HIM. THE MEETING TO GO OVER PREPARATIONS WITH THE ASEAN WASHINGTON CONFIDENTIAL

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COMMITTEE IS SET FOR JULY 10.

THERE ARE ONLY SCATTERED REACTIONS IN SO FAR ON THE APPROACHES YOU REQUESTED OUR AMBASSADORS TO MAKE TO HELP CLARIFY MISINTERPRETATIONS OF OUR INTENTIONS AND TO STIMULATE MORE ACTIVE COOPERATIVE ASEAN PREPARATIONS. FURTHER CONTACTS ARE PLANNED IN MOST CASES WHERE WE HAVE

PRELIMINARY REPORTS. THE MOST DEFINITIVE RESPONSE IS FROM SINGAPORE WHERE FOREIGN MINISTER RAJARATNAM STRESSED

THE NEED FOR A PUBLIC "COMMITMENT" ON AFFIRMATION THAT THE ASEAN COUNTRIES ARE IMPORTANT TO US INTERESTS, BOTH POLITICALLY AND ECONOMICALLY, COUPLED WITH MORE ATTENTION FROM US POLICY MAKERS, E.G. BY CONSULTING WITH ASEAN BEFORE FINAL DECISIONS ARE MADE. THE THAIS EMPHASIZED THAT THE RTG CONTINUES TO HOPE FOR CONCRETE RESULTS IN THE ECONOMIC FIELD, BUT THOUGHT THAT THE FOREIGN MINISTERS WILL WANT SOME EXCHANGES ON THE OVERALL SITUATION IN SOUTHEAST ASIA. EMBASSY SOUNDINGS FIND NO BASIS WHATSOEVER FOR THE REPORT FROM ANOTHER SOURCE THAT THE THAIS ARE EXPECTING US TO MATCH JAPAN'S OFFER OF ONE BILLION IN FINANCING FOR THE INDUSTRIAL PROJECTS. GOP MINISTER OF FINANCE VIRATA SAID THERE IS A CONSENSUS AMONG THE ASEAN ECONOMIC MINISTERS THAT THE ECONOMIC FOCUS SHOULD BE ON MARKET ACCESS, INVESTMENT AND TRADE WITH DEVELOPMENT COOPERATION TAKEN UP LATE IN THE SCHEDULE. HE REMARKED THAT MUCH OF THE DEVELOPMENT COOPERATION AGENDA IS COVERED IN OUR BILATERAL AID PROGRAMS.

2. MTN (LIMITED OFFICIAL USE)

WITH ONLY A WEEK AND A HALF TO GO BEFORE THE JULY 15 DEADLINE FOR POLITICAL SETTLEMENT IN THE MTN, THE US
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TRADE NEGOTIATING TEAM HAS MOVED TO GENEVA FOR THE FINAL PUSH. THE MAJOR STUMBLING BLOCKS TO AN AGREEMENT BY THAT DATE ARE DIFFERENCES ON SELECTIVE SAFEGUARDS, SUBSIDIES AND AGRICULTURAL ISSUES. AT A FULL TRADE NEGOTIATING COMMITTEE MEETING ON JULY 3, THE LDCS STRESSED THAT THEIR INTEREST IS NOT LIMITED TO SPECIAL AND DIFFERENTIAL TREATMENT AND THAT THEY ARE APPREHENSIVE OF COMING OUT OF THE NEGOTIATIONS WITH A "NEGATIVE BALANCE SHEET". THE ISSUES OF SAFEGUARDS AND LDC OBLIGATIONS ON THE USE OF SUBSIDIES ARE CRUCIAL TO THE GENERAL ACCEPTANCE OF THE MTN PACKAGE BY THE LDCS.

NEGOTIATIONS ARE GOING ON WITH ALL THE ASEAN COUNTRIES, AND WRITTEN OFFERS CAME FROM THAILAND AND SINGAPORE LAST WEEK. US NEGOTIATORS ARE ENTHUSIASTIC ABOUT KOREA'S CONDUCT IN THE MTN. HOWEVER, CONCERN IS GROWING THAT THE PHILIPPINES MAY NOT MAKE AN ACCEPTABLE OFFER BEFORE JULY 15, WITH THE RESULT BEING A WITHDRAWAL OF ITEMS OF SPECIAL INTEREST TO THE PHILIPPINES FROM OUR OFFER.

3. COMMON FUND (CONFIDENTIAL)

AN INFORMAL MEETING IN GENEVA ON THE COMMON FUND LAST WEEK REVEALED NO MOVEMENT BY THE G-77 ON THE SUBSTANTIVE

ISSUES OF FINANCING, OTHER MEASURES, AND ORGANIZATION AND VOTING. WHILE THE US SUGGESTED THAT FURTHER INFORMAL

CONSULTATIONS WOULD BE USEFUL, IT WAS GENERALLY FELT THAT DIFFERENCES HAVE BEEN NARROWED AS MUCH AS THEY CAN BE OUTSIDE OF FORMAL NEGOTIATIONS. ALTHOUGH THE ISSUE OF RESUMPTION IS UNSETTLED, IT IS LIKELY THAT UNCTAD SECRETARY GENERAL COREA WILL RECOMMEND RESUMPTION IN LATE FALL.

4. SECTION 911 (UNCLASSIFIED)

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THE BILL TO AMEND SECTION 911 APPROVED JUNE 28 BY THE WAGGONER SUBCOMMITTEE OF WAYS AND MEANS WOULD SHELTER ABOUT 85 PERCENT OF INCOME EARNED BY PRIVATE CITIZENS ABROAD, MORE THAN DOUBLE THE ADMINISTRATION'S PROPOSAL. IT WOULD PROVIDE A FLAT EXCLUSION OF 20,000 DOLLARS TO 25,000 DOLLARS (APPLICABLE EVERYWHERE BUT CANADA AND WESTERN EUROPE). IN ADDITION, DEDUCTIONS WOULD BE PERMITTED FOR COST OF LIVING EXCEEDING WASHINGTON, D.C., HOUSING EXPENSES ABOVE ONE-SIXTH OF "BASE COMPENSATION", REASONABLE COST OF EDUCATION K THROUGH 12, AND ONE FAMILY HOME LEAVE TRIP ANNUALLY. DEDUCTIONS WERE ALSO LIBERALIZED FOR TEMPORARY LIVING ARRANGEMENTS AND MOVING EXPENSES, AS WELL AS MEALS AND LODGING FURNISHED BY THE EMPLOYER. THE MINIMUM PERIOD OF RESIDENCE ABROAD (17 OR 18 CONSECUTIVE MONTHS) WOULD BE REMOVED. FULL COMMITTEE MARKUP HAS NOT YET BEEN SCHEDULED, BUT IS EXPECTED TO BEGIN SHORTLY.

5. ADB TECHNICAL ASSISTANCE SPECIAL FUND (TASF)
(LIMITED OFFICIAL USE)

IN RECENT MONTHS FOUR ADB MEMBERS HAVE OFFERED TO MAKE ADDITIONAL CONTRIBUTIONS TO THE TASF. IN EQUIVALENT AMOUNTS IN THOUSANDS OF DOLLARS THESE OFFERS ARE: AUSTRALIA, 220; KOREA, 150; PAKISTAN, 70; AND UK, 570. THE CONTRIBUTIONS, HOWEVER, ARE GENERALLY TIED TO PROCUREMENT FROM THE DONOR COUNTRY. AS OF THE END OF 1977, TOTAL TASF CONTRIBUTIONS AMOUNTED TO OVER 31 MILLION DOLLARS, OF WHICH THE US HAD CONTRIBUTED 1.25 MILLION DOLLARS. OUR LAST CONTRIBUTION WAS MADE IN 1969. EVEN THOUGH OVER HALF OF THE CONTRIBUTIONS HAVE NOT YET BEEN USED, THE US CONTRIBUTION IS FULLY COMMITTED. AS A RESULT, US PROCUREMENT MAY BE AFFECTED BECAUSE OF THE TIED

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RESTRICTIONS OF OTHER DONORS. OMB HAS TURNED DOWN SEVERAL INTERAGENCY REQUESTS TO MAKE AN ADDITIONAL CONTRIBUTION PRIMARILY BECAUSE OF CONGRESSIONAL CONCERN OVER THE PROLIFERATION OF AID SPIGOTS AND THE AVAILABILITY

OF ADB INCOME TO PAY FOR TECHNICAL ASSISTANCE ACTIVITIES.

TREASURY AND STATE ARE CURRENTLY PREPARING A REQUEST TO ASK OMB TO AGREE TO A ONE MILLION DOLLAR CONTRIBUTION IN THE FY 1980 BUDGET REQUEST. THIS REQUEST WILL EVENTUALLY HAVE TO BE RAISED AT A HIGH LEVEL BECAUSE OF OMB OBDURATENESS.

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THE ADB MANAGEMENT HAS PROPOSED RESTRUCTURING OPERATIONAL FUNCTIONS BY CREATING SEVERAL NEW DEPARTMENTS AND OFFICES RESULTING IN A NET ADDITION OF TEN PROFESSIONAL AND TEN SUPPORTING STAFF. BOARD MEMBERS GENERALLY FAVOR THE PROPOSAL BUT SUGGEST THAT THE NEW POST-EVALUATION OFFICE SHOULD BE UP-GRADED. NEW VP, STAN KATZ, TOLD US DURING A RECENT WASHINGTON VISIT THAT THE BANK NEEDED TO MODERNIZE ITS ADMINISTRATIVE OPERATIONS AND TO RECRUIT A NUMBER OF NEW PERSONNEL. KAT, WOULD LIKE TO EXPLORE FURTHER SECONDMENT OF USG PERSONNEL IN ORDER TO BRING IN NEW BLOOD AND BALANCE OUT RECRUITMENT OF JAPANESE AND SOUTH ASIANS. HE BELIEVES THE BANK APPROPRIATELY FOCUSSED ON LOAN OPERATIONS DURING ITS FIRST TEN YEARS BUT NOW NEEDS TO SHIFT ATTENTION TO IMPROVING FINANCIAL AND ADMINISTRATIVE ACTIVITIES. KATZ IS VERY POSITIVE ABOUT HIS NEW JOB. HE SAYS THAT HE IS GETTING ALONG WELL WITH THE STAFF AND IS FULLY ENGROSSED IN A DEMANDING JOB.

7. HONG KONG AMCHAM REPORTS ON TRIP TO SRV (UNCLASSIFIED)

A FIVE-MAN HONG KONG AMCHAM DELEGATION SPENT ONE WEEK IN HANOI AND SAIGON DISCUSSING WITH SENIOR VIETNAMESE
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OFFICIALS SRV BUSINESS OPPORTUNITIES. AN AMCHAM PRESS RELEASE STATED THAT VIETNAM OFFERED CONSIDERABLE OPPORTUNITY FOR US INVESTMENT AND TRADE AND THE ADMINISTRATION'S EMBARGO WAS THE ONLY OBSTACLE TO TRADE BECAUSE THE VIETNAMESE WERE WILLING TO DO BUSINESS IMMEDIATELY. THE PRESS RELEASE ADDED THAT THERE SHOULD BE A SEPARATION OF BUSINESS AND POLITICS AND THE EMBARGO ONLY DENIED US COMPANIES THE OPPORTUNITY TO COMPETE. IN A DETAILED BRIEFING ON THE VIETNAMESE PETROLEUM INDUSTRY, SRV OFFICIALS REPORTEDLY BELIEVE OIL PRODUCTION WILL BOOST ITS ECONOMY AND AMERICAN PARTICIPATION WOULD HELP DEVELOP OIL DEPOSITS QUICKLY. SRV OFFICIALS ALSO ASKED FOR US HELP IN PROCESSING FUTURE CRUDE OIL PRODUCTION. THE HONG KONG CHAMBER NOW PLANS TO SEND SPECIALIZED GROUPS TO THE SRV TO FOLLOW UP ON THE VISIT.

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TO USS HAROLD HOLT

C O N F I D E N T I A L STATE 169558

LIMDIS HAROLD HOLT PASS ASST SECRETARY HOLBROOKE ONLY

FOLLOWING REPEAT STATE 169558 ACTION ALL EAST ASIAN AND PACIFIC
DIPLOMATIC POSTS

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